

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 CIAE-00 PM-07 INR-11 L-03 ACDA-19

NSAE-00 PA-04 RSC-01 PRS-01 SP-03 USIA-15 TRSE-00

SAJ-01 DODE-00 H-03 NSC-07 SS-20 EB-11 COME-00 FRB-03

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R 301430Z JUL 74

FM USMISSION NATO

TO SECSTATE WASHDC PRIORITY 6964

AMCONSUL HONG KONG

USLO PEKING

C O N F I D E N T I A L SECTION 1 OF 2 NATO 4147

E.O. 11652: GDS

TAGS: ECON, CH, NATO

SUBJECT: ECONADS: ECONOMIC SITUATION IN THE PRC

REF: A. STATE 125076

B. HONG KONG 8034

1. FOLLOWING IS THE TEXT OF A DRAFT REPORT PREPARED BY NATO'S ECONOMIC DIRECTORATE FOLLOWING THE JUNE 13 ECONOMIC COMMITTEE MEETING WITH EXPERTS. REPORT IS ON AGENDA OF ECONADS MEETING AUGUST 1 FOR APPROVAL. MISSION WOULD WELCOME COMMENTS ON THE REPORT BY COB JULY 31 BEFORE IT IS FORWARDED TO THE NORTH ATLANTIC COUNCIL.

2. BEGIN TEXT.

QUOTE

ECONOMIC SITUATION IN THE PEOPLE'S
REPUBLIC OF CHINA (1973)

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1. ALTHOUGH THE PEOPLE'S REPUBLIC OF CHINA HAS BEEN A MEMBER OF THE UNITED NATIONS FOR TWO-AND-A-HALF YEARS, THIS ORGANIZATION HAS NOT BEEN ABLE TO PUBLISH ECONOMIC STATISTICS OF THE COUNTRY AS IS DONE IN RESPECT OF THE OTHER MEMBER COUNTRIES WHICH THEMSELVES REGULARLY PROVIDE THE DATA REQUIRED. THE FRAGMENTARY INFORMATION OCCASIONALLY PUT OUT BY THE AUTHORITIES HARDLY MAKES UP FOR THE LACK OF OFFICIAL STATISTICAL PUBLICATIONS. ONE HAS TO FALL BACK ON ESTIMATES WHICH TO SOME EXTENT ARE SUPPLEMENTED BY THE FOREIGN TRADE FIGURES OF CHINA'S COMMERCIAL PARTNERS.

2. AN EXAMINATION OF THESE FIGURES AND OF ALL THE ASSOCIATED DATA MAKES IT POSSIBLE TO SINGLE OUT WHAT, TO WESTERN OBSERVERS, SEEMS TO BE THE MAIN FEATURES OF CHINESE ECONOMIC DEVELOPMENT IN 1973:

- A STRIKING RISE IN FOREIGN TRADE PROMOTED, FOR THE FIRST TIME, BY RESORT TO THE NORMAL WESTERN CREDITS;

- A FOOD BALANCE MAINTAINED IN PRECARIOUS EQUILIBRIUM APPARENTLY BY GROWING IMPORTS OF GRAIN.

3. CHINESE FOREIGN TRADE TURNOVER (IMPORTS PLUS EXPORTS) IN 1973 ROSE 50 PER CENT RELATIVE TO 1972. CHINESE IMPORTS, WHICH ACCORDING TO CURRENT ESTIMATES REACHED ABOUT \$4.5 MILLIARD, ROSE FASTER THAN EXPORTS, THEREBY CREATING A DEFICIT WHICH IS UNUSUAL IN CHINESE FOREIGN TRADE RELATIONS. APART FROM JAPAN THE MAIN COUNTRIES TO BENEFIT FROM THIS RISE IN TRADE WITH CHINA HAVE BEEN THE US AND THE OTHER NATO COUNTRIES, THE VALUE OF WHOSE SALES TO CHINA IN 1973 WAS DOUBLE THAT IN 1972. IT IS RECKONED THAT INFLATION ACCOUNTS FOR HALF OF THIS INCREASE; CHINA ALSO STEPPED UP ITS EXPORT PRICES TO LEVELS CLOSE TO THOSE PREVAILING ON WORLD MARKETS.

4. THE CURRENT STATE OF CHINA'S FOREIGN TRADE REFLECTS THE DETERMINATION OF THE LEADERS TO MAKE GOOD THE TIME LOST DURING THE CULTURAL REVOLUTION AND TO SPEED UP THE INDUSTRIALISATION OF THE COUNTRY. PURCHASES ABROAD COVERED NOT ONLY RAW MATERIALS AND ESSENTIAL INDUSTRIAL PRODUCTS BUT ALSO, AND ABOVE ALL, CONTRACTS CONCLUDED IN 1973 FOR THE

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PURCHASE OF AT LEAST FIFTY COMPLETE CHEMICAL FACTORIES-MANY OF THEM DESIGNED TO PRODUCE FERTILIZERS. IN KEEPING WITH THE POLICY PURSUED OVER THE YEARS, EFFORTS HAVE BEEN EXERTED IN VARIOUS DIRECTIONS WITH PRIORITY FOR AGRICULTURAL PRODUCTION, THE REVENUES OF WHICH ARE NECESSARY TO INDUSTRIALIZE THE COUNTRY. A CONSIDERABLE EFFORT, TOO, HAS BEEN MADE AS REGARDS INFRASTRUCTURE AND IN THE PURCHASE OF MEANS OF TRANSPORT. OWING TO THE LACK OF THESE IT IS AT PRESENT

DIFFICULT TO PROVIDE SATISFACTORILY FOR THE TRANSPORT OF RESOURCES EVEN WITHIN THE LIMITS OF THE PROVINCES, WHICH IS A COUNTRY LIKE CHINA ARE IN FACT QUITE LARGE, IN ACCORDANCE WITH THE POLICY OF DECENTRALISATION IMPOSED ON THE AUTHORITIES BY NATURE HERESSELF.

5. IN ADDITION TO THE ACQUISITION OF EQUIPMENT THERE ARE THE GROWING GRAIN PURCHASES ABROAD - MORE THAN 7 MILLION TONS IN 1973 COMPARED WITH 5 MILLION IN THE PREVIOUS YEARS. IN 1974, THESE PURCHASES COULD, ACCORDING TO PRESENT ESTIMATES, REACH 9 MILLION TONS. IN VALUE THEY CORRESPOND TO ABOUT 15 PER CENT OF EXPORT REVENUE. GRAIN OUTPUT IS STATIONARY DESPITE THE FACT THAT CONSIDERABLE RESOURCES IN VARIOUS FORMS HAVE BEEN PUT AT THE DISPOSAL OF THE FARMER. FOR SEVERAL YEARS NOW OUTPUT HAS BEEN ABOUT 240 MILLION TONS ON THE AVERAGE (OF WHICH 20 TO 25 MILLION TONS OF WHEAT) WHEREAS THE POPULATION IS GROWING AT THE RATE OF 15 MILLIONS A YEAR. ESTIMATES OF POPULATION FOR 1973 RANGE FROM JUST UNDER 700 MILLIONS TO MORE THAN 900 MILLIONS: BETWEEN THESE EXTREMES, A FIGURE OF 880 SEEMS ABOUT RIGHT. APART FROM SATISFYING THE NEEDS OF THE POPULATION AN INCREASE IN GRAIN IMPORTS IS NECESSARY TO BUILD UP RESERVES WHICH WERE CUT BY HALF (ABOUT 20 MILLION TONS) AS A RESULT OF THE BAD HARVEST OF 1972.

6. EXPORT RECEIPTS WERE NOT SUFFICIENT IN 1973 TO FINANCE THE INCREASED IMPORTS OF EQUIPMENT AND GRAIN. IT IS ALSO UNDERSTOOD THAT THE TRADE DEFICIT WAS NOT COVERED BY REVENUES DERIVED FROM CHINESE BANKING ACTIVITIES IN HONG KONG AND THE REMITTANCES FROM CHINESE LIVING ABROAD. IN THESE CIRCUMSTANCES GIVEN THE LOW LEVEL OF CHINESE GOLD RESERVES AND CONVERTIBLE CURRENCY, THE VALUE OF WHICH IS NOT KNOWN BUT ESTIMATED AT \$1.5 MILLIONS, IT IS NOT SURPRISING THAT SHE ACCEPTED SUPPLIERS' CREDITS. THE CREDITS TAKEN UP BY CHINA ARE MEDIUM-TERM (5 YEARS) AND IN GENERAL THE RATE OF INTEREST IS 6 PER CENT. DEBT REPAYMENTS BY CHINA TO NON-COMMUNIST COUNTRIES, ESTIMATED AT CONFIDENTIAL

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\$750 MILLION AT THE END OF 1973, WILL WEIGHT QUITE HEAVILY ON THE BALANCE OF PAYMENTS IN THE COMING YEARS. IT IS RECKONED, HOWEVER, THAT IN 1978 WHEN REPAYMENTS WILL BE AT A MAXIMUM, THEY WILL NOT ABSORB MORE THAN 7 PER CENT OF EXPORT RECEIPTS.

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C O N F I D E N T I A L SECTION 2 OF 2 NATO 4147

7. ALTHOUGH CHINESE POLICY SEEMS TO FAVOUR THE DEVELOPMENT OF FOREIGN TRADE SO AS TO SPEED UP INDUSTRIALISATION, THE TRADE OUTLOOK SO FAR SEEMS LIMITED BY THE INABILITY OF THE CHINESE TO INCREASE THEIR EXPORTABLE OUTPUT WHICH CONSISTS LARGELY OF AGRICULTURAL PRODUCTS. GIVEN CHINESE RELUCTANCE TO RUN UP DEBTS IT IS NOT AT ALL CERTAIN THAT CHINA WILL CONTINUE TO RESORT TO FOREIGN CREDITS ONCE THE GAPS LEFT BY THE CULTURAL REVOLUTION HAVE BEEN FILLED. RECENTLY NEW POSSIBILITIES OF INCREASING EXPORT RECEIPTS HAVE APPEARED. THE OUTPUT OF PETROLEUM HAS INCREASED OVER THE LAST FEW YEARS AND IS THOUGHT TO HAVE EXCEEDED 50 MILLION TONS IN 1973, A FIGURE QUITE MODEST FOR A COUNTRY THE SIZE OF CHINA BUT ONE WHICH AT THE MOMENT SEEMS TO EXCEED THE COUNTRY'S CONSUMPTION CAPACITY GIVEN ESPECIALLY THE POOR INTERNAL TRANSPORT SYSTEM. IN 1973 CHINA SOLD ABOUT 3 MILLION TONS OF PETROLEUM BOTH TO JAPAN AND TO SOUTH EAST ASIA, ABIDING, IT WOULD SEEM, BY CONTRACTS CONCLUDED BEFORE THE RISE IN PRICES. THESE SALES COULD, ACCORDING TO SOME ESTIMATES, REACH AT LEAST 5 MILLION TONS IN 1975 AND INCREASE EXPORT RECEIPTS BY ABOUT \$450 MILLION. IT IS NOT TO BE EXCLUDED THAT, IN VIEW OF EFFORTS CURRENTLY BEING MADE IN PROSPECTING FOR OIL
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AND IN PRODUCTION, OUTPUT COULD REACH 100 MILLIONS TONS PER YEAR BY THE END OF THE DECADE, WHICH WOULD OPEN VAST OPPORTUNITIES FOR CHINA'S EXPORTS.

8. IT SEEMS LIKELY THAT THE RISE IN FOREIGN TRADE HAS

REVIVED THE OPPOSITION OF THOSE LEADERS WEDDED TO THE IDEA OF RIGID AUTARCHY. THE PRESENT INTERNAL TURMOIL IS PERHAPS THE EFFECT OF RIVALRIES WHICH REMAIN OVER FROM THE CULTURAL REVOLUTION, BUT IT SEEMS LIKELY THAT THE ANTI-CONFUCIUS CAMPAIGN HAS BEEN CHOSEN BY THE LEADERS IN ORDER TO COMBAT BUREAUCRATIC INERTIA AND THE TRADITIONAL CHINESE LEANING TO ACADEMIC ATTITUDES. THE CAMPAIGN APPEARS TO BE WELL UNDER THE CONTROL OF THE AUTHORITIES AND NOT TO BE HAVING UNFAVOURABLE REPERCUSSIONS ON THE ECONOMY. IT IS RECKONED, TOO, THAT THERE HAS BEEN NO LET-UP IN THE ARMAMENT FIELD. NATIONAL INCOME IS SAID TO HAVE RISEN 7-8 PER CENT OR MORE IN 1973 - THE RESULT OF A BIG INDUSTRIAL EFFORT, AND IT SEEMS THAT FROM 1976 ONWARDS GROWTH WILL BE STILL MORE PRONOUNCED (IN THE ABSENCE OF UNFORESEEN AGRICULTURAL FAILURE) ONCE THE COMPLETE FACTORIES BOUGHT IN SUCH QUANTITIES IN EARLIER YEARS ARE IN FULL PRODUCTION. THE CHINESE NATIONAL INCOME IN 1973 IS ESTIMATED TO BE A LITTLE GREATER THAN THAT OF THE UNITED KINGDOM BUT DEFINITELY BELOW THAT OF THE FEDERAL REPUBLIC OF GERMANY OR FRANCE; PER HEAD OF POPULATION IT WOULD NOT EXCEED 200 DOLLARS. THE STANDARD OF LIVING OF THE POPULATION AND GENERALLY SPEAKING THE STATE OF THE ECONOMY ARE IN THE LONG-TERM CLOSELY LINKED TO THE RESULTS OF THE EFFORTS MADE TO INCREASE AGRICULTURAL OUTPUT BY HELP FROM ABROAD AND BY INTENSIVE RESORT TO HUMAN CAPITAL.

ANNEX TO
AC/127-WP/404

STATISTICAL DATA
(ESTIMATES)

1970 1972 1973 REMARKS

POPULATIONS (MILLIONS) 836 865 880 (GROWTH IS
(1) ESTIMATED AT
2 PER CENT

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PER YEAR)

GRAIN OUTPUT (MILLION TONS) 240 240 246-250

ENERGY OUTPUT:

- COAL (MILLION TONS) 300 340 360
- ELECTRICITY (MILLIARD KWH) 60 80 100
- CRUDE OIL (MILLION TONS) 20 30 50

OTHER INDUSTRIAL OUTPUT

- STEEL (MILLION TONS) 17 23 25-26
- FERTILIZER (MILLION TONS) 13,5 18,5 24,5

FOREIGN TRADE 4 5 8-9
(TOTAL TURNOVER IN MILLION US \$

GRAIN IMPORTS (2) 4,8 4,5 7,5 ENVISAGED IN
1973/74:
9 MILLIONS T.

(1) FIGURE ACCEPTED BY ECONOMIC COMMITTEE IN REPORT C-M(72)9
(2) ON BASIS OF GRAIN YEARS 1969-70, 1971-72, 1972-73.
END TEXT
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